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THE DOUBLE TAXATION CONVENTIONS
BETWEEN THE UNITED KINGDOM AND THE UNITED STATES

Article II of the Double Taxation Convention on Income Tax
(Cmd. 6902) defines the terms "resident of the United Kingdom" and
"resident of the United States" as follows:

- (g) The term "resident of the United Kingdom" means any person (other than a citizen of the United States or a United States corporation) who is resident in the United Kingdom for the purposes of United Kingdom tax and not resident in the United States for the purposes of United States tax. A corporation is to be regarded as resident in the United Kingdom if its business is managed and controlled in the United Kingdom.
- (h) The term "resident of the United States" means any individual who is resident in the United States for the purposes of United States tax and not resident in the United Kingdom for the purposes of United Kingdom tax, and any United States corporation and any partnership created or organized in or under the laws of the United States, being a corporation or partnership which is not resident in the United Kingdom for the purposes of United Kingdom tax.

GVA:mg

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UNITED KINGDOM INCOME TAX

NOTE: British Information Services have no authority to give advice on taxation questions. Official papers and books which may be obtained or consulted are listed on pages 8 and 9.

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I. TAXATION OF INDIVIDUALS

1. Rates: The standard rate of income tax in the financial year 1955-56 (running from April 6) is 8s. 6d. in the £, equivalent to $42\frac{1}{2}$ per cent. This applies both to individuals and corporations (see II below).

The following table shows how the standard rate of income tax has risen in recent years.

TABLE I

Standard Rates of Income Tax, 1934-56

<u>Years</u>	<u>Rate in £</u>	<u>%</u>	<u>Years</u>	<u>Rate in £</u>	<u>%</u>
1934-36	4s. 6d.	$22\frac{1}{2}$	1941-46	10s. 0d.	50
1936-37	4s. 9d.	$23\frac{3}{4}$	1946-51	9s. 0d.	45
1937-38	5s. 0d.	25	1951-53	9s. 6d.	$47\frac{1}{2}$
1938-39	5s. 6d.	$27\frac{1}{2}$	1953-55	9s. 0d.	45
1939-40	7s. 0d.	35	1955-56	8s. 6d.	$42\frac{1}{2}$
1940-41	8s. 6d.	$42\frac{1}{2}$			

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Individuals resident in the United Kingdom for income tax purposes are allowed to deduct the following amounts, where applicable, before arriving at "taxable income". These amounts are called allowances (exemptions).

Proportion of Earned Income Two-ninths of the amount earned (e.g. salary) but not exceeding £450.

and, in addition, flat sums for :

Single persons, Widows, Widowers £140
Married couple £240
Each child £100

Other tax-free exemptions are made in respect of incapacitated relatives, widower's or widow's housekeeper, life insurance policies taken out with a company doing business in the United Kingdom, etc.

After deducting the appropriate allowances, or exemptions, the remaining income is "taxable income". The first £60 of taxable income is taxed at 2s.3d. in the £ ($11\frac{1}{4}\%$), the next £150 at 4s.9d. in the £ ($23\frac{3}{4}\%$), the next £150 at 6s.9d. in the £ ($33\frac{3}{4}\%$), and the remainder at the full standard rate of 8s.6d. in the £ ($42\frac{1}{2}\%$).

Where the "gross income" (i.e. before allowances) of an individual is over £2,000, the excess is subject to surtax (which is additional to income tax) at rates running from 10 per cent to 50 per cent. The different rates are applicable to different slices of income: e.g. the highest rate of 50 per cent is applied only to that part of income which is in excess of £15,000. Thus on that slice of income the total income tax plus surtax rate is effectively $92\frac{1}{2}$ per cent.

TABLE II

Rates of Surtax

(For 1955-56, payable January 1, 1957)

<u>On slice of income between</u>	<u>Percentage surtax</u>
£2,001 - 2,500	10 per cent
2,501 - 3,000	$12\frac{1}{2}$
3,001 - 4,000	$17\frac{1}{2}$
4,001 - 5,000	$22\frac{1}{2}$
5,001 - 6,000	$27\frac{1}{2}$
6,001 - 8,000	$32\frac{1}{2}$
8,001 - 10,000	$37\frac{1}{2}$
10,001 - 12,000	$42\frac{1}{2}$
12,001 - 15,000	$47\frac{1}{2}$
15,001 - upwards	50

TABLE III

Taxes on Specimen Earned IncomesIn £ sterling

Income Tax and Surtax (if any)
payable after deduction of
personal and other exemptions

Total Earned Income per annum	ANNUAL TAXES				
	Single Person	Married No Children	Married One Child	Married Two Children	Married Three Children
£ 175	£ -	£ -	£ -	£ -	£ -
200	2	-	-	-	-
250	6	-	-	-	-
300	15	-	-	-	-
400	33	9	-	-	-
500	55	28	5	-	-
700	112	74	41	17	-
1,000	211	169	126	85	52
1,250	294	251	209	166	124
1,500	376	334	291	249	206
2,000	542	499	457	414	372
2,500	802	759	717	674	632
3,000	1,077	1,034	992	949	907
4,000	1,677	1,634	1,592	1,549	1,507
5,000	2,327	2,284	2,242	2,199	2,157
10,000	6,127	6,084	6,042	5,999	5,957
100,000	89,152	89,109	89,067	89,024	88,982

TABLE IV

Taxes on Specimen Investment Incomes (£s)*

£ 175	£ -	£ -	£ -	£ -	£ -
200	2	-	-	-	-
250	6	-	-	-	-
300	15	-	-	-	-
400	59	30	7	-	-
500	93	59	30	7	-
700	178	135	93	59	30
1,000	305	263	220	178	135
5,000	2,518	2,475	2,433	2,390	2,348
10,000	6,318	6,275	6,233	6,190	6,148
100,000	89,343	89,300	89,258	89,215	89,173

* All incomes below £300 a year receive the earned income exemption. There is marginal exemption where the income slightly exceeds £300.

Age relief: where the taxpayer (or his wife if they are living together) is over 65 at any time in the tax year, and his total income does not exceed £600, age relief is given; this reduces the tax payable to that chargeable on the earned income scale. Where the total income exceeds £600, marginal relief is given so that the full tax on the investment scale is not payable until the marginal relief runs out.

2. How the Calculations are MadeExample (i): Single man, earning £700 per annum

	£700
Less Earned Income Exemption ($2/9 \times 700$)	156
	544
Less Personal Exemption	140
Taxable Income is	£404

This is taxed as follows :

	Tax		
	£.	s.	d.
£ 60 at 2s.3d. ($11\frac{1}{4}\%$)	6	15	0
£150 at 4s.9d. ($23\frac{3}{4}\%$)	35	12	6
£150 at 6s.9d. ($33\frac{3}{4}\%$)	50	12	6
£ 44 at 8s.6d. ($42\frac{1}{2}\%$)	18	14	0
£404 (taxable income)	£111	14	0 (income tax)

(This is shown as £112 in Table III, i.e. to the nearest £).

Example (ii): Married man with 3 children, earning £5,000 per annum

	£5,000
Less Earned Income Exemption (maximum)	450
	£4,550
Less Personal Exemptions:	
As married man: £240	
Three children: £300	
	£ 540
Taxable Income is	£4,010

This is taxed to income tax as follows :

	Income Tax		
	£.	s.	d.
£ 60 at 2s.3d. ($11\frac{1}{4}\%$)	6	15	0
£150 at 4s.9d. ($23\frac{3}{4}\%$)	35	12	6
£150 at 6s.9d. ($33\frac{3}{4}\%$)	50	12	6
£3,650 at 8s.6d. ($42\frac{1}{2}\%$)	1,551	5	0
£4,010 (taxable income)	1,644	5	0 (income tax)

In addition Surtax is assessed on the excess of gross income over £2,000 :

	Surtax		
	£.	s.	d.
£500 at 2s.0d. (10%)	50	0	0
£500 at 2s.6d. ($12\frac{1}{2}\%$)	62	10	0
£1,000 at 3s.6d. ($17\frac{1}{2}\%$)	175	0	0
£1,000 at 4s.6d. ($22\frac{1}{2}\%$)	225	0	0
£3,000 (£5,000 less £2,000 exemption)	512	10	0 (surtax)
Plus Income Tax	1,644	5	0
TOTAL TAX	£2,156	15	0

(This is shown as £2,157 in Table III).

The calculations for investment incomes are made similarly, with the exception that no earned income exemption is given unless age relief is applicable, or the total income is less than £300 (see footnote to Table IV).

Income tax on dividends at the standard rate is deducted at the source by the corporations making the payment. The investor thus receives a net amount which is not again subject to income tax. The tax so deducted is regarded as having been paid by the recipient of the dividend, and will be repaid to the recipient of the dividend if he is so entitled. The full pre-tax amount of the dividend has to be included in his statement of income, and surtax, if applicable, is payable on the full amount.

There is no capital gains tax in the United Kingdom. Capital profits will be assessed, however, if it is part of the business to deal or trade, in securities, for example, or if there are exceptional circumstances.

II. TAXATION OF CORPORATIONS

Corporations pay profits tax and income tax, the latter at the standard rate of 8s.6d. in the £, or $42\frac{1}{2}$ per cent.

The profits tax is at the rate of $22\frac{1}{2}$ per cent and is not allowable as an expense when calculating income tax. The provisions relating to profits tax are somewhat complicated, but briefly they provide that the tax shall be at $22\frac{1}{2}$ per cent and that a reduction shall be made to the extent of 20 per cent of the difference between taxable profits and distributed profits.

In common parlance, however, the tax is generally known as a distributed profits tax of $22\frac{1}{2}$ per cent and an undistributed profits tax of $2\frac{1}{2}$ per cent.

In showing the incidence of the tax it is more convenient to calculate the $2\frac{1}{2}$ per cent on the whole profits (distributed and undistributed) and to add 20 per cent of the distributed profits. This is the same in effect as $2\frac{1}{2}$ per cent on the undistributed profits plus $22\frac{1}{2}$ per cent on the distributed profits.

Currently, the minimum rate of tax is paid by a corporation not liable to distributed profits tax, i.e. a corporation not distributing any of its profits. The total tax is thus $42\frac{1}{2}$ per cent income tax plus $2\frac{1}{2}$ per cent on undistributed profits, making 45 per cent in all.

The maximum rate of tax is that paid by a corporation distributing all its profits. This is 59.2 per cent and is calculated as follows :

	<u>%</u>	<u>%</u>
<u>Taxable profits</u>		100.0
<u>Taxes :</u>		
Income tax	42.5	
Undistributed profits tax	2.5	
Distributed profits tax	<u>14.2</u>	
	59.2	59.2
<u>Net dividend</u> (71.0 gross dividend less tax at 8s.6d. in the £)	40.8	<u>40.8</u>
		<u>100.0</u>

The figures of 14.2 and 40.8 are calculated as follows : after deducting the first two items the balance of 55 includes the distributed profits tax (as adjusted) of 20 per cent on gross dividends, plus the net dividend. Twenty per cent on gross dividends when income tax is at $42\frac{1}{2}$ per cent is the equivalent of 34.8 per cent of net dividends. Thus the figure of 55 equals 34.8 per cent of net dividend plus the net dividend, or 134.8 per cent of net dividend. The net dividend, that is, the gross dividend less deduction of income tax as 8s.6d. in the £ ($42\frac{1}{2}\%$) is therefore 40.8. The gross dividend is thus 71.0, and 20 per cent of 71.0 is 14.2.

In this case, therefore, shareholders receive 40.8 per cent of taxable profits; the balance of 59.2 per cent is paid in taxes.

It should be pointed out that the income tax deducted from the dividends by corporations is not handed over to the Inland Revenue if the dividends were paid out of profits that had previously borne income tax. This avoids double taxation of the same income.

III. U.K. INCOME TAX AS IT AFFECTS VISITORS FROM OTHER COUNTRIES

NOTE: INCOME FROM FEDERAL SOCIAL SECURITY PAYMENTS IS TAXABLE IN THE UNITED KINGDOM AND IS REGARDED AS EARNED INCOME THUS ENTITLING THE RECIPIENT TO THE PROPORTIONATE EARNED INCOME EXEMPTION.

This sets out in general terms the circumstances in which and the extent to which visitors to the United Kingdom, who are not domiciled there, may incur liability to United Kingdom Income Tax.

1. LIABILITY TO TAX ON INCOME ARISING IN THE UNITED KINGDOM

Income arising from sources within the United Kingdom is in general chargeable to United Kingdom Income Tax, but special privileges are attached to the interest on certain United Kingdom Government securities.

2. LIABILITY TO TAX ON INCOME ARISING ABROAD

No part of a visitor's income from sources outside the United Kingdom is subject to United Kingdom Income Tax unless he is chargeable as a person residing in the United Kingdom. The circumstances in which he may become so chargeable and the extent of his liability are indicated below.

3. WHAT CONSTITUTES "RESIDENCE"

(a) If no place of abode is maintained in the United Kingdom available for the visitor's use and his visits are not habitual but are occasional only, he is not regarded as resident in the United Kingdom unless he has been in the United Kingdom for a period or periods equal in the whole to six months in the Income Tax year (beginning 6th April).

(b) If, however, a place of abode is maintained in the United Kingdom,

/available ...

available for his use, he is regarded as resident for any year in which he pays a visit, of whatever length, to the United Kingdom.

- (c) Moreover, even though a place of abode is not maintained in the United Kingdom available for his use and he does not stay for six months in any one year, he is regarded as becoming resident if he visits the United Kingdom year after year (so that his visits become in effect part of his habit of life) and the annual visits are for a substantial period or periods of time. The question of residence in any particular case can only be determined by reference to the facts of the case. But it can be said that the Board of Inland Revenue would normally regard an average annual period or periods amounting to three months as "substantial" and the visits as having become "habitual" after four years. And, where the visitor's arrangements indicated from the start that regular visits for substantial periods were to be made, he would be regarded as resident in and from the first year.

4. EXTENT OF LIABILITY TO UNITED KINGDOM TAX ON INCOME ARISING ABROAD

A visitor who thus becomes chargeable as a resident is not liable on the whole of his income arising abroad, but only on so much of that income as is received in or remitted to the United Kingdom. Visitors intending to make an extended visit, and taking sufficient funds with them for this purpose, should consult the Inland Revenue.

5. RELIEF FROM DOUBLE TAXATION

A visitor's liability to tax may be affected by the provisions of an Agreement entered into by the United Kingdom with his home country, or with a country from which he derives income, for the granting of relief so as to avoid double taxation of the same income.

Where no such double taxation agreement is in force, a visitor charged as a resident to United Kingdom tax on income arising in an overseas country and taxed there may still be entitled to a reduction of the United Kingdom tax on account of the overseas tax.

The foregoing paragraphs give no more than a general outline. The subject is complicated, and, in order to assist intending visitors in ascertaining their position, the Board of Inland Revenue will be glad to express their opinion on the facts of any case being submitted to them by letter addressed to the Secretary, Board of Inland Revenue, Somerset House, London, W.C. 2. If possible, the letter should give the probable date of commencement and the duration of the intended visit and particulars of all visits to the United Kingdom during the previous four years. It will also be helpful if, in addition to giving particulars of the intending visitor's income arising in the United Kingdom, the letter contains brief particulars of the sources abroad from which remittances of income are likely to be received in or sent to the United Kingdom. It should be added that a visitor who is charged to Income Tax has the right to appeal to the Appeal Commissioners and, on a point of law, to the Courts, both on the question of residence, and on the question of the amount of the Income Tax liability.

/...

IV. U.K. INCOME TAX AS IT AFFECTS
RESIDENTS OF THE UNITED STATES
EMPLOYED IN THE U.K.

1. Exemption from U.K. tax: To obtain exemption from U.K. tax, a resident of the United States working in the United Kingdom must satisfy two conditions:
 - (i) He must not be in the United Kingdom for a period exceeding 183 days in the tax year (which runs from April 6 to April 5) and
 - (ii) The services must be performed for or on behalf of a person resident in the United States.
2. Liability to U.K. tax: Unless both of these conditions are satisfied, there is liability to United Kingdom tax on the earnings in the United Kingdom, but, if the income is also assessed to U.S.A. tax, credit will be given for the tax paid in the United Kingdom.

In short, the position is :

Employed by a British company	Liable, irrespective of period spent in the U.K.
Employed by an American organization	Liable if in the U.K. for more than 183 days in the tax year, otherwise exempt.

3. Personal exemptions: Where an individual resides in the United Kingdom for six months or more in the tax year he is entitled to the full personal exemptions, and to the charging of tax at the reduced rates. (See under Section I. INDIVIDUALS)
4. Transfer of Earnings: All reasonable earnings of a non-resident may be transferred to his country of residence. The arrangements for transfer should be made through a bank.

FURTHER INFORMATION

- 1) The following information papers are available free of charge :

The Double Taxation Convention (ID 727)
 Death Duties in Britain (ID 746)

- 2) Reference books on income tax, corporate taxes and estate duties may be consulted in B.I.S. Library, New York. The Reading Room at Room 4424 in the R.C.A. Building, 30 Rockefeller Plaza, New York 20, N.Y., is open from 9 a.m. to 6 p.m. Monday through Friday. As a general rule these books may not be borrowed on the inter-library loan system, but exceptions are made in certain cases, generally only when a later edition of the same book has been received.

/Following ...

Following are some of the reference books which are available for consultation :

Income Tax

Income Tax Act, 1952 (CH.10) (This is a consolidation Act.)
Finance Acts from 1952
The Income Tax Acts (and supplements) (H.M.S.O.) (Ref: 336.24 I67)
Harrison's Index to Tax Cases (and supplements) and Case Commentary
(Ref: 336.21 H25 S6 and H24 S6.)
Tolley's Income Tax Chart-Manual (Annual) (Ref: 336.24 T72.)
The Law of Income Tax (and supplements) by E. M. Konstam (Stevens, 1952,
Ref: 336.24 K68.)

Profits Tax

Profits Tax (and supplements) (H.M.S.O.) (Ref: 336.24 I87)

Death Duties

Death Duties by R. Dymond (Solicitors' Law Stationery Society, 1942)
(Ref: 336.27 D99.)
Death Duties by K. McFarlane (Stevens, and Sweet and Maxwell, 1950)
(Ref: 336.276 M17.)

Double Taxation Convention between the U.S.A. and the U.K.

Inquiries on this subject only may be made to :

Legal Adviser to the British Embassy,
Washington D.C.

and addressed to him at P.O. Box 206, New York 16, N.Y.

Anyone unable to obtain from these sources the information he needs, may be able to get assistance from professional taxation experts (in banks, law firms, etc.). In addition, he may write for information on specific points to the following addresses in the United Kingdom:

For Income Tax queries : The Secretary, The Board of Inland Revenue,
Somerset House, London W.C.2.

For Estate Duty queries : The Estate Duty Office, Rockley Road,
London W. 14.

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